Compliments of The First National Bank in Minneapolis, Minn.
Correspondent of The National City Bank of New York

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Economic Conditions
Governmental Finance
United States Securities

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General Business Conditions

THE commonly accepted measures of business indicate that the country has made a good beginning on the new year. Trade has not started off with any great rush, but there has been a good upturn after the quiet period at the year-end and business is moving steadily in most lines. It is recognized as too early to gauge the tendencies of the year with much accuracy and the attitude of business generally is one of making haste slowly until the course of spring industry and trade is more clearly defined.

Repeatedly since 1922 a wave of pessimism has spread over the country, having its origin each time apparently in apprehension that capacity to produce is so much in excess of our ability to consume that after a brief "spell" of prosperity we must of necessity have a period of depression while an accumulated surplus is being worked off. A year ago, it will be recalled, business had the same doubts about the forthcoming year that are now being expressed in some quarters relative to 1927, but business belied the pessimists by going on to new heights of prosperity.

The situation at the outset of 1927, it must be admitted, is not quite the same as at the outset one year ago. We have had one more year of very heavy building operations which must of necessity bring us nearer to the time when building operations will undergo some decline. We have also had another year of heavy production in the automobile industry with indications that that industry also may not be able to continue without some interruption its record of year to year increases. The decline in agricultural prices, particularly in the case of cotton, tends to disturb the equilibrium of business.

In certain other fundamental respects, however, the situation has not changed. The dominant sustaining factor continues to be the ease of the credit situation. Gold is again flowing into the country in large volume, the total imports during January amounting to more than $50,000,000, making the largest total for any month since 1921, and together with seasonal liquidation, carrying the volume of Federal reserve credit outstanding down to the lowest levels since early in 1925. Whatever the ultimate results of these further additions to our already large gold stocks may be, the immediate effect is to make credit more abundant for commercial and speculative purposes.

Low money rates and rising bond prices such as we are now witnessing, and which have carried representative bond averages to the highest levels since pre-war, are not among the signs of approaching depression. Stimulated by a favorable bond market, new capital issues continue in record breaking proportions, and each one of these issues represents funds definitely ear marked for expenditure for construction or equipment of some kind. This signifies employment for labor in any event, and tangible support for industrial activity. Easy money, moreover, by facilitating refunding operations is enabling industry to rid itself rapidly of its high yield obligations put out during recent years of high capital costs. According to a tabulation by Dow, Jones and Co., bonds called for prior redemption in January aggregated $104,746,000, compared with $47,694,000 in January, 1926, and $93,279,000 in January, 1925.

Volume of Trade High

Bank clearings during January have continued to run below the corresponding weeks of a year previous, as in the closing quarter of 1926. Bank debits, however, which include a somewhat larger total, covering as they do not only checks passing through the clearing houses, but also those presented directly over the counters of the banks on which they are drawn, make a better showing than the clearings figures, the totals for 141 principal cities for the first four weeks of the year aggregating $51,860,000,000, an increase of 2.6 per cent over those of the same period a year ago despite the lower level of prices and lessened activity in the security markets. Railway car loadings for the first two weeks of the year

were likewise above the totals for the first two weeks of any previous year.

Estimates of railway car requirements for the first quarter of the year, prepared by the Mid-West Shippers Advisory Board and the Atlantic States Shippers Advisory Board which met during January, reflect conservative optimism regarding trade for the three months, the expectation generally being that business will at least equal that of the first quarter of 1926, with some lines predicting advances. These reports are prepared in conference with leading shippers and railroad officials in the various districts and are devoid of propaganda, being an attempt to measure as accurately as possible the probable car requirements of individual industries. Early in December the Southeast Shippers Advisory Board reported good prospects for the Southeast for the first quarter despite the drop in cotton prices.

Retail Distribution

With employment generally well sustained, it is natural that retail distribution also should be in large volume. Department stores reporting monthly to the Federal Reserve Board did a Christmas business 4 per cent greater than that of last year, though mail order sales, apparently reflecting lower prices for agricultural products, were about the same as in December, 1925. Chain store sales have continued their remarkable expansion, gains in 1926 of 10 to 20 per cent over 1925 being common, with some of the leading chains showing gains ranging up close to 30 per cent. Such increases of course do not wholly reflect new business, being caused in part by the opening of new units in the various chains and diversion of trade from other retailers, the chief loser probably being the small individual store. Following is a table showing the record made by a few of the leading chains last year; eleven months' figures are given where the full year's totals are not yet available:

	1925	1926	% Inc.
F. W. Woolworth	$239,018,000	$253,639,000	6.1
J. C. Penney Co.	90,865,000	115,682,737	27.0
S. S. Kresge	105,966,000	119,218,007	12.5
S. H. Kress & Co.	45,962,000	51,869,460	12.9
W. T. Grant	30,162,524	35,934,289	19.2
McCrory Stores	29,545,000	33,592,730	13.7
Metropolitan Stores	8,675,402	11,008,349	26.9
J. J. Newberry Co.	6,876,106	9,984,694	45.2
McClellan Stores	6,729,450	9,454,329	40.5
F. & W. Grand	8,519,192	10,501,938	23.3
Neisner Bros., Inc.	2,694,697	4,421,229	64.1
	$575,013,371	$655,306,762	14.0

	11 Months 1925	11 Months 1926	% Inc.
L. K. Liggett	$38,423,937	$46,955,547	22.2
Peoples' Drug Stores	4,667,118	5,566,128	19.3
National Tea, Inc.	42,734,838	48,457,822	13.4
Jewel Tea Co.	12,672,320	13,325,442	5.2
David Pender Co.	7,501,919	9,624,853	28.3
Piggly Wiggly West'n	5,903,530	7,087,007	20.1
B. F. Schlesinger	12,879,000	14,170,000	10.0
Hartman Corp.	13,647,361	17,110,038	25.4
G. R. Kinney Co.	15,289,744	15,702,558	2.7
Loft, Inc.	7,043,064	7,515,690	6.7
Western Auto Supply	8,544,086	10,908,039	27.7
	$169,306,917	$196,423,124	16.0

In passing it is worth while pointing out at this time, when so much concern is being expressed over the spread of instalment buying, that these chain store sales are for cash, and that the rapid growth of this business during the past few years is in no small degree an offsetting factor to the larger use of instalment credit. How large a factor these expanding sales may be in the net volume of credit required to finance the consumer is suggested by the fact that chain systems reporting to the Federal Reserve Board and Department of Commerce did a business last year estimated at close to $2,000,000,000, in addition to which were the sales of many smaller chains not reporting.

Building and Manufacturing

In the iron and steel industry the year has begun more quietly than usual, but this is not surprising in view of the sustained activity of 1926. January steel production, however, is expected to run above the 74 per cent rate of December, which will not be a bad showing, even though considerably below the 89 per cent rate of last January. Prices, however, have been under pressure. "Not in many months," says the Iron Trade Review in its issue of January 27, "has the finished steel market been so highly competitive." Continuing, this authority says:

> Business not having come back as expected after the holidays, producers have gone after it in vigorous fashion and in a moderate way they have succeeded. The past week has seen further improvement in the general tone of the market, with new business and production on a somewhat higher plane, but casualties among prices continue.

Automobile production after dropping to a low ebb in December was stepped up rapidly in January, but manufacturers are proceeding cautiously, and Detroit employment figures are well below the high points of 1924 and 1926. Records of attendance and business done at the National Automobile Shows were encouraging, but the industry recognizes that it must await the development of spring buying to get its real cue to the year's business.

Building contracts in the final month of 1926 totaled $537,395,800, a total 2 per cent above December, 1925, bringing the year's total, according to the F. W. Dodge Corporation, to a new high record in excess of $6,800,000,000. Thus the new year begins with probably a larger volume of work under contract than at the start of any previous year.

Suggestions by the head of a large real estate mortgage house that the country is overbuilt and that a six months' building halt would

be desirable have again precipitated lively discussion over the status of the building industry. For some time conservative opinion has looked with misgiving upon the methods being pursued in the construction of certain types of apartments and office buildings in various sections of the country, and a warning that indiscriminate building of this character cannot be carried on indefinitely without undesirable results will be approved by all. This is not to say, however, that the country's building requirements in all ways are satisfied or that any drastic shrinkage in the activity of the construction industries is to be anticipated in the near future. Residential building where conservatively planned should and doubtless will go forward, and expenditures for public works, utility, industrial and railway construction and equipment promise to be large during the coming year. Few people, in fact, look for a building total in 1927 very far below that of 1926.

Textile Outlook More Promising

No survey of the business situation is complete without mention of the improving prospects in the textile industries, particularly those of the cotton goods branch. The market in this line has been distinctly more active in January, sales of some constructions establishing new high records and with buying extending somewhat more confidently into the more distant deliveries. Generally speaking, the outlook is regarded as the most favorable in a long period and activity is expected to continue unless checked by too rapid price advances or the industry's old difficulty, namely over-production. During December domestic mills consumed 605,217 running bales of lint cotton which is a new high record for the month, and spindle activity reached the high average of 100.3 per cent of single shift capacity.

In the woolen end, the situation has been helped by greater stability in raw wool and the generally low stocks in the clothing and cutting up trades. Consumption appears to be on the increase. Silk business has likewise shown improvement since the first of the year and manufacturers are hopeful of a better year than last, but the intense competition prevailing in the industry as the result of overdevelopment during the past few years makes large profits difficult.

The Threatened Coal Strike

One of the major problems which the country will have to face this Spring will be the conclusion of a new wage agreement in the bituminous coal industry. The present agreement between the operators and union miners, concluded three years ago at Jacksonville, Florida, expires April 1, and operators' and miners' representatives are to meet in joint conference February 14 to frame a new agreement. The old scale provided for the maintenance of wages at above the war-time peak and resulted in severe losses and much unemployment in the union fields owing to the competition of non-union coal mined under lower wage rates. How large this disadvantage has been may be seen by comparing the non-union scale of about $4.40 a day for unskilled labor with the union scale of $7.50. As a matter of fact, only in unusual periods such as during the high prices caused by the British coal strike has the scale of the Jacksonville agreement been generally effective.

Members of the central competitive field, representing operators of Ohio, Illinois, Indiana and Western Pennsylvania, have met and will probably propose a reduction to restore wages to a competitive basis with those paid in the non-union fields. Union officials, however, have declared against a wage reduction, stating "there must be no backward step" in the industry.

Meantime the country is making preparations for a tie-up in mining in the event that both sides cannot come to an understanding amicably. Production of bituminous coal has been exceeding all records for the season, the output for the week ended January 15 being over 13½ million tons. Inasmuch as exports since the end of the British coal strike have returned to normal volume, heavy production reflects a large amount of coal going into storage.

Oil Outlook Good

Contrasting with the beclouded outlook in the coal industry, prospects for the oil companies are regarded favorably. Production of petroleum has been running at very high levels recently but is not viewed with alarm, because of record-breaking consumption. Moreover, there are indications that production in the Seminole field, which has contributed most to flush output, is close to or at peak.

Consumption of gasoline, the chief product of petroleum, exceeded 11 billion gallons during the first eleven months of 1926, an increase of 17 per cent over the corresponding period of 1925, while stocks on hand at the end of November showed for the first time in recent years a decrease from those of the corresponding date a year previous. Oil experts estimate that at the present rate of gasoline consumption, figuring the recovery of gasoline from crude oil at 38 per cent, it will require a billion barrels of domestic or imported oil in 1927 to supply the demand without drawing further on stocks in storage. This estimate of required oil compares with 828,000,000 barrels actually produced or imported during 1926, the record year thus far.

The Decline of Prices

Attention has been directed frequently in this Letter and elsewhere to the unusual combination during the past year of business prosperity and declining commodity prices. Government price tables now available for December indicate a decline of nearly 6 per cent in the average of wholesale prices during the year, bringing the general level to the lowest point since July, 1924. As indicated in the group classification of the Department of Labor's price index, given below, the principal weight of these declines has fallen in the farm products and miscellaneous groups. In the former the drop in cotton and wheat has been largely responsible for the lower totals, as many farm commodities such as corn, oats, butter, eggs, hogs and cattle, are within striking distance of or actually higher than a year ago. In the latter the decline in rubber has been a large factor. Non-agricultural groups also are all down with the exception of fuels, but in these groups the declines have been gradual and of orderly character. It will be seen that metals and metal products and two other classes are lower in relation to 1913 prices than farm products, and that the food products group is above the average for "all commodities."

	December 1925	December 1926	Per Cent Decrease
Farm Products	152	135	11.1
Foods	157	151	3.8
Clothing Materials	187	169	9.6
Fuels	175	183	4.5*
Metals and Metal Products	130	126	3.0
Building Materials	177	173	2.2
Chemicals and Drugs	135	128	5.1
House-furnishing Goods	166	159	4.2
Miscellaneous	138	118	14.4
All Commodities	156	147	5.7

* Increase.

During January the trend of prices has continued downward as shown by Prof. Irving Fisher's weekly index which stood at 145.0 for the last week of the month compared with 146.5 at the end of December. Cotton has recovered substantially since the first of the year, touching 13.70c compared with a low of 12.15c in December. Metals, on the other hand, have been heavy, steel prices in particular showing concessions as result of sharp competition, while copper, lead and zinc have touched lowest prices since 1924.

The lower trend of prices is the natural result of a combination of circumstances, including large production, the general decline of world prices which reflects the passing of paper money standards and inflation, and the increasing efficiency of industry. Insofar as the decline is the result of the latter, its effects are beneficial, as it stimulates consumption and strengthens our world trade position. In viewing the price situation, it is reassuring to reflect that we have had no inflation of prices which would require drastic deflation. Nor is there any likelihood of credit pressure to force excessive liquidation. With the possibility that the general level of industrial operations may be somewhat lower in 1927 than in 1926, a further easing of prices would be natural, but barring a let-down in business of unexpected proportions such declines should be gradual.

Wages and Living Costs

Reflecting lower wholesale prices, the movement of retail price indexes has also been towards lower levels during the year. That of the National Industrial Conference Board, for example, shows a decline of 1.7 per cent from December, 1925, to December, 1926.

This decline in retail prices has the effect of reducing the cost of living and thereby increasing the purchasing power of wages. With the cost of living, according to the Conference Board's figure, approximately 68 per cent above the 1914 level, and with average weekly earnings of factory workers, as represented by the New York figures, 139 per cent above 1914, real wages of labor stand at the highest levels in the history of the country.

One of the reasons, of course, why industry has been able to pay these wages without a commensurate advance in the price level is because production has likewise been tremendously increased by labor-saving devices, so that individual plants have been able to get increased output with the same number of workers and to pay the individual workmen more money.

So long as wage advances are accompanied by corresponding increases in productivity per worker, they are sound and promote rather than retard prosperity. Obviously, however, a declining price level greatly increases the difficulty of maintaining high wage levels. It is with concern, therefore, that business views the evidences during the past year of more concerted efforts on the part of labor to push wages up to new high levels. Coming at a time when the cost of living is declining, these efforts, unless accompanied by equivalent increases in per capita production, are out of harmony with the trend of the times, and if persisted in will narrow the margin of profit and thus impair the stability of industry.

Money and Banking

January has been a period of ease in the money market. Liquidation of commercial loans, decline in the volume of funds required by the stock market, and return of currency from circulation after the holiday trade, have caused funds to accumulate in the financial centers, and these accumulations have been further augmented by gold imports. Call

money rates, after reaching 5 and 6 per cent during the period of seasonal stringency in December, relaxed to 4 per cent in January, time money dropped from 4⅝-4¾ to 4½, bankers acceptances were off ¼ to 3⅝ per cent for 90-day bills, and commercial paper offered by the dealers in the open market was also easier at 4 to 4¼ per cent for prime names. At these levels rates were, on the average, slightly lower than at the beginning of 1926.

Easier money conditions in this market have been accompanied by easier tendencies in other leading money markets of the world. Though the Bank of England rate remains unchanged, gold holdings have increased substantially over a year ago, and three months' bills in the open market have been easing since last November until at the present level of 4⅛ per cent the spread under the bank rate amounts to nearly a full one per cent. In Germany the Reichsbank has lowered its rate from 6 to 5 per cent, and in Austria there has been a cut in the rate from 7 to 6½ per cent.

Both in London and New York ease at this time of the year comes as a normal seasonal occurrence, usually of short duration, and it remains to be seen what the effect will be as Spring trade activity develops in February and March. The outstanding fact of the situation revealed is that the seasonal expansion of credit last autumn and Christmas proved to be less than expected, apparently due in part to lower commodity prices and a moderation of activity in some lines of trade, while the January liquidation has been unusually heavy. The following table comparing the December to January credit movement each year since 1921-22, as reflected by the changes in the total earning assets of the Federal reserve banks, shows the lower level of the December, 1926, credit peak and indicates the succeeding liquidation to have been the heaviest in over six years:

(In Millions of Dollars)

Year	December Peak	January Low	Decrease
1921-22	1,536	1,183	353
1922-23	1,334	1,127	207
1923-24	1,298	915	383
1924-25	1,332	945	387
1925-26	1,505	1,119	386
1926-27	1,427	972	455

This liquidation of Reserve bank credit, as already stated has been caused by a combination of credit contraction in the member banks and gold imports. Commercial loans of the weekly reporting banks in principal cities on January 19 were off $100,000,000 since the end of December, and down $200,000,000 from the fall peak. Though the more cautious pace of trade has doubtless been a factor in this decline, it is noteworthy that the decrease in these loans since last fall has been no greater than took place a year ago, and the total remains $300,000,000 higher than at this time last year.

Loans secured by stocks and bonds, including brokers' loans, have likewise gone off sharply since the first of the year. This too is partly seasonal, but also reflects liquidation in the stock market and brings the total of these loans to a point slightly below the level of last year.

On top of the decline in member bank credit and return flow of currency from circulation has come the import of over $50,000,000 in gold, including $35,000,000 from Canada and $14,000,000 from France. This has accentuated the easier tendency and carried total earning assets of the Federal reserve banks below a billion dollars for the first time since 1925.

The country thus approaches the period of Spring commercial demand with a larger volume of available credit on tap than was the case a year ago. The stage at present appears set for less than the usual firming in money rates this Spring, though a quickening of pace in trade or an upward move in the stock market might easily upset these calculations.

The Bond Market

With indications pointing to a volume of new offerings during January of around $600,000,000, the month promises to establish a new high record for volume of financing. That bonds should continue to be in sufficiently heavy demand to force prices into new high territory, even in the face of this great flood of new offerings, has occasioned some surprise even among close students of the market and furnishes unimpeachable evidence of the tremendous buying power of the American investing public. Although new financing in 1926 broke all records as to volume for both new capital and refunding, there have been no signs of a let-up in any important group; coming months show promise of holding up well to present levels in emission of new securities.

Bond prices were buoyant during the month although somewhat subject to the influence of the stock market uncertainties. Practically all groups made new high records for the movement, with many individual issues reaching their high points for all time. The Dow Jones average of 40 listed domestic corporate issues (10 high grade rails, 10 second grade rails, 10 industrials and 10 public utilities) on January 25th was 96.67 compared with 96.82 high for the month, and 93.82 on January 25th a year ago. The January average was well above the previous post war high of 96.25, reached in January, 1917. With time money on good collateral around 4½ per cent, call money ruling currently at 4 per cent, Federal

Reserve ratios on the advance and commodity prices near their low levels, there would seem to be little in the present situation to bring about a reaction in bond prices or even to prevent a reasonable upward tendency.

United States Government Bonds

For the first time since the United States Government began issuing bonds to cover its share of the financial burden of the world war, one of its long term obligations other than the Liberty 3½s sold during the month to yield less than 3½%. The issue was the Treasury 3¾s of 1956 brought out last March at 100½ and currently quoted at 103¾ to yield around 3.48%. The Liberty 3½s at present prices yield around 3.26% but this issue really is in a class by itself because totally tax exempt in contrast with the limited tax exemption of all other issues. Other Government issues which reached the highest prices since their issuance were the First Liberty 4¼s at 103-13/32, Fourth Liberty 4¼s at 103-27/32, Treasury 4¼s at 110-7/8 and Treasury 4s at 106-27/32. The recent steady climb of long term Government securities is the result not alone of easier money and consequent investment buying by banks and other substantial holders, but seems also to reflect the "scarcity value" beginning to develop from Government debt retirements. The historic policy of the Government always has been to pay off the National debt. It has already retired about $6,000,000,000 of the total $25,000,000,000 outstanding at the end of the World War. Assuming that this policy is maintained, annual sinking fund appropriations, treasury surpluses and foreign debt installments should keep debt retirement at or near its present rate. From a long range standpoint, therefore, the investment status of Government securities seems unusually strong.

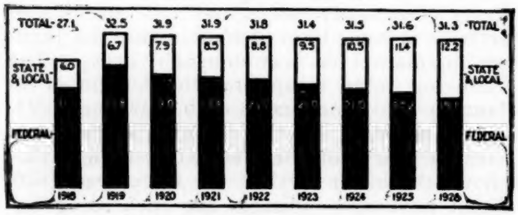
Municipals

Since the successful underwriting of the $60,000,000 New York City 40 and 50 year 4¼s early in the month demonstrated the possibilities of the municipal market, high grade state and city issues generally have been on the up-grade with yields on several going below the 4% level. The municipal market has simply been readjusting itself to the trend of Liberties, rails, industrials, public utilities, and foreigns, averages for practically all of which have passed the 1917 levels. The municipal average is still considerably below the level of ten years ago, although these bonds are just as sound and attractive investments today as they were then.

While it is true that the volume of outstanding Municipal and State bonds is increasing gradually from year to year in contrast with the gradual reduction in outstanding Federal debt, this of itself is not an indication that these local debts have increased unduly or that it is desirable or even possible to change the trend. As our country develops there will be an increasing demand for public facilities such as highways, streets, water systems, public buildings, drainage, parks, schools, etc. Municipal borrowings must increase if the growth in these facilities is to keep pace. These funds are being invested in properties which contribute to public health and welfare and which have a definite and justifiable value. Most of our Federal debt, on the other hand, was incurred suddenly during an emergency which has since passed. It was not productively invested and it is only reasonable therefore that our Government continue a policy of gradual retirement.

The chart below, prepared from estimates furnished by the United States Treasury Department, shows both the gradual reduction in outstanding Federal debt and the gradual increase in State and local, and also presents strikingly that total volume of public debt of all kinds has been at an almost uniform level since 1919. When one considers the tremendous increase in the value of our taxable resources during this period, the present public debt situation appears favorable enough.

FEDERAL, STATE AND LOCAL INDEBTEDNESS OUTSTANDING EACH YEAR
(In billions of dollars)



Active Trading in Rails

The market for both high grade and second grade railroad bonds was unusually active during the month, due not alone to the continued favorable traffic showing of the railways, but also to progress in merger negotiations. The most important piece of merger news was formal announcement by the Presidents of the Great Northern and Northern Pacific Railways of their present plans for combining these two systems and their subsidiaries into what will be the world's greatest railroad system. The report said that "such unified operation will afford exceptional opportunities for improved service and for substantial economies, promising to improve the aggregate net earnings of the railroads in the northwest rate region." Such combination, if effected, should be distinctly beneficial to both the security holders concerned and the public served.

The greatest improvement in the railway list, however, came in the bonds of the smaller railways which may figure in other merger plans. Some of these rises may be justified but it is probable that others are more or less temporary movements in sympathy with the sensational burst in strength of many of the low priced railroad shares. Peoria and Eastern Income 4s reached the highest price in a decade at 43⅛; Wheeling and Lake Erie Refunding 4½s reached a new high at 93; as did also Western Maryland First 4s at 80½. The Erie group, with the most active trading in the Convertible 4s, Series D, rose to new high levels. The strength in most of the low priced bonds was apparently based on the theory that if the roads are merged with stronger companies, the bonds will be strengthened and will have a higher investment rating. Heavy buying of the St. Paul issues upon confirmation of sale by the Courts carried that list to the highest levels since the receivership. It is expected that issuance of securities by the new company in accordance with the reorganization plan will be approved by the Interstate Commerce Commission in time to allow the new company to take possession of its property during the first half of the year. Although individual railroad issues were subject to these artificial influences during the month and may experience some price readjustments later, the market for railway bonds as a whole continues to rest upon the solid foundation of high operating efficiency, record traffic, and satisfactory earnings.

Foreign Bonds

Activity in the foreign list, while due in a measure to industrious searching for more liberal yields, was more largely a result of favorable foreign news. Outstanding was the announcement of Premier Poincare that the French Government had declared for a virtual stabilization of the franc at between 122 and 123 to the pound sterling and had asserted that its reserves in foreign currencies abroad were adequate to maintain the franc at this level. All the principal European issues were active and strong, French 7s and 7½s and 8s selling at new high prices of 102½, 109 and 109⅝, respectively. Italian issues were heavily bought, Government 7s of 1951 reaching 96⅜. Belgian issues also were strong and near their record prices.

Stabilization of the Franc

The French financial situation since last July has afforded a remarkable demonstration of the saving power of sound economic policies and capable statesmanship. At the middle of July financial affairs in France, both public and private, seemed to be in an almost desperate state of confusion, owing to the rapid depreciation of the currency. The fundamental difficulty was in the apparent inability to maintain a reliable majority in the Chamber of Deputies in support of an adequate financial policy. A large majority of the Chamber was opposed to further inflation and desired stabilization, but the several groups appeared to be unable to unite upon a Government and a policy.

The emergency, however, worked its own cure. Face to face with the danger that the franc might go the way of the mark, the French legislators put aside partisanship and their own theories upon taxation and the various subordinate questions of policy, and formed a coalition cabinet pledged to support M. Poincare, whose high patriotism nobody doubted, as premier and finance minister. That act of itself went a long way toward restoring confidence. Panic disappeared and as M. Poincare's plans for the rehabilitation of the state finances and the support of the currency were developed and adopted by ample majorities confidence rapidly grew.

M. Poincare's measures have met with the situation in a courageous, straightforward manner. He provided new taxes which speedily covered the state expenditures, with a substantial surplus. He took care of the floating debt by creating a fund protected by an amendment to the nation's constitution with assigned revenues ample to pay interest and provide a sinking fund. Moreover, he borrowed money of neighboring neutral countries on the security of the railways sufficient to pay off obligations of early maturity. As his program developed, the currency advanced in value and capital which had been hiding abroad began to return home. This movement effected further improvement in the exchanges and at the same time placed the Treasury and the Bank of France in possession of foreign credits to an extent which has greatly strengthened their position. The debt of the Treasury to the Bank of France has been largely reduced.

All of this having been accomplished the Government has felt sure enough of its position to announce that it had determined upon a tentative stabilization of the currency at approximately the exchange rate recently prevailing with gold currencies, which would make the franc worth 3.94 to 3.975 cents.

The debt settlements with the United States and Great Britain have not yet been laid before the Parliament for ratification, probably because the Premier has desired to complete the policy of financial reform upon which his cabinet is united before taking up a subject upon which opinion is to some extent divided. The division upon the settlements, however, seems to be upon the question of whether or

not France shall qualify ratification by making the terms conditional upon her receipt of reparation payments. This unquestionably is a tender point. As between business men of the two countries it probably would be quickly adjusted, but as between governments, with ratification by large parliamentary bodies required on both sides it is more difficult.

Meantime it is understood that the Budget for 1927 as prepared and voted contemplates revenues sufficient to cover the debt payments to the United States and Great Britain as fixed in the agreements submitted. Moreover, the entire Budget is based upon the franc at 150 to the pound sterling, and at the present rate, 122 to 125, the Treasury is by that much stronger.

Evidently the French situation has been profoundly changed in the last six months under the Poincare administration, and great as is the credit belonging to the Premier we are of the opinion that like recognition should be given to the patriotism and devotion of the groups of conflicting political allegiance who have laid aside partisan considerations, personal antagonisms and personal opinions in order to secure a united and effective administration of the country's finances. It has re-established the French nation in the confidence of the world, as evidenced by the rise of French securities in every market.

Our Foreign Entanglements

The Department of State has had an unusual number of diplomatic problems on its hands in recent weeks and some people of excitable temperament have seemed to be apprehensive that this Government might be intending to make war. The Government, however, has not threatened war or taken any action which is likely to provoke war.

In the case of Mexico it has made a firm protest against an amendment to the Federal constitution which on its face is retroactive in scope and confiscatory of property rights. It has not protested against the principle that Mexico may make any conditions it pleases to name affecting the future acquisition of property in Mexico by foreigners, but simply maintains that property held under valid titles and acquired before the amendment was adopted should not be taken from the owners without compensation. It has stated this position without a hostile act or word. It may be inferred that the United States will take some action in case confiscation actually occurs, but it need not be inferred that war will be declared or that what appears to be a policy of confiscation will be carried into effect. There might be a break in diplomatic relations without war, for the United States is refusing to have diplomatic relations with the present government of Russia upon similar grounds without making war. As yet, however, no menace of any kind has been uttered; the United States simply stands upon its protest. What less it could have done with proper regard for the rights of its citizens is difficult to see.

United States marines have been landed in Nicaragua to protect the lives and property of foreign residents, our own citizens and citizens of other countries whose governments look to the United States to preserve order there. It is not the first time the marines have been in Nicaragua; they left in 1925 after a sojourn of thirteen years. They were invited in by the President of the country in 1912, to aid the executive authority in maintaining order, and entered again in 1926 upon the invitation of both parties, as President Coolidge has stated, to establish a neutral zone in which a conference over the present controversy might be held. They have remained there to maintain neutral zones for the protection of the foreign residents and their property, which inevitably are menaced in the existing disorder.

The insurgent claimant has not been recognized by any of the Central American governments or by any government excepting that of Mexico, and it is stated at Washington that the Government of the United States is in possession of evidence which indicates that his support is from Mexico and probably with the connivance of the Mexican government. Apparently he is a trouble-maker with outside support; the offices of the United States are exerted in behalf of order and the lawful government.

The Big Business Outcry

As in every such instance representations are made that the United States is involved by bankers, oil companies, etc. Oil never has been discovered in Nicaragua. President Coolidge in his message to Congress of January 10 has shown that the outstanding debt of Nicaragua is small, mainly held in Great Britain, and that so far as the Washington authorities are advised no American bankers have interests in Nicaragua. The National Bank of Nicaragua is owned by the Nicaraguan Government, as are the railroads. The fact is that largely owing to the good offices of the United States Government and American financiers who interested themselves in the reorganization of the monetary system about 15 years ago, the finances of Nicaragua are in good condition, loans negotiated at that time having been since largely paid off. The total public debt was reduced from $22,000,000 in 1917 to $6,625,203 at the beginning of 1926. The creditors of Nicaragua have had no occasion to ask for intervention.

There are numerous American property interests in Nicaragua, but none of them are identified with Wall Street. They are in the

form of mines, timber operations, plantations, etc., operating as ordinary business enterprises without public concessions. They have nothing to do with the rival political interests, but are involved in the disorder. Recent information to the coffee trade of New York has been to the effect that the coffee crop is likely to suffer seriously because the laborers are all in one or the other of the contending armies.

It has been said that the United States pursues a policy in Nicaragua which it would not think of pursuing toward a strong nation. This is true, but not in the sense intended. The United States would not think of landing troops in Nicaragua if the Government of that country was strong enough to maintain order and afford protection to citizens of the United States and other foreign countries. It has not gone in to impose its will upon a weak government, but to aid the Government in performing elemental functions affecting foreign interests.

Property Rights and Human Rights

There are always critics who sneer at property rights, affecting a comparison between them and human rights. Obviously what are referred to as property rights are all human rights. Property has neither rights nor value except as human interests are involved. Property rights are important because they involve industry, employment, wages, the welfare and living conditions of dependent people. Nations have reciprocal obligations in the protection of the lives and legitimate activities of foreign residents which in the interests of civilization and social progress they are bound to observe.

The nations of Europe in recognition of the Monroe doctrine have abstained from military or naval demonstrations in the Latin-American countries, and have looked to the United States to protect the lives and property interests of their nationals in those countries, particularly in Mexico and the Caribbean. The United States has a responsibility in this respect which always has been recognized by our Chief Executive, of whatever political party.

It is said in certain foreign quarters that the action taken in Nicaragua furnishes additional evidence of the imperialistic designs of the United States. It is an exceptional kind of imperialism which goes in and then comes out when its immediate purpose is accomplished, as the United States has done in Nicaragua and Mexico several times, and as it has done in Santo Domingo and in Cuba and the Isle of Pines. The United States has shown no inclination to encroach upon the liberties of any people.

Under the Wilson administration, with William Jennings Bryan as Secretary of State, the United States negotiated a treaty with Nicaragua under the terms of which it paid $3,000,000 for a canal route between the Atlantic and the Pacific, and for harbor rights at both ends. This was done in anticipation of the need not many years distant of another passage, and the treaty gives the United States a vital interest that no outside influence unfriendly to this country shall impose itself upon Nicaragua.

The Situation in China

The situation in China has been constantly becoming more disordered in recent years, and has reached a highly critical state. The country has been passing through a transitional stage from the old imperial regime and ancient culture to a new form of government and new civilization. The new wine in old bottles has been fermenting. The people were not prepared for a republican form of government and there is no government in China in the sense that it is understood elsewhere. For 14 years the country has been torn by civil war. Instead of a central government controlling provincial authorities, the provinces have been divided among military leaders who have set up independent local governments and exercise absolute power. Mr. Silas Strawn, delegate of the United States Government in the international conference upon Chinese customs last year, has said that in the 14 years since China became a republic in name the country has had eight Presidents, forty-two cabinets with continually changing membership, and twenty-five Ministers of Justice.

The utmost confusion exists in governmental affairs. The Treasury is totally empty; practically every foreign obligation, except where the security is under foreign control, is in default. Practically every employee of the Peking Government is unpaid, salaries being in arrear from one to two and more years. All important Governmental educational establishments in the capital have closed their doors for lack of funds. No money is being spent on public works. Many of the provinces are up to the neck in debt which can never be liquidated, or encumbered by paper issues which can never be redeemed. Banditry is rife to a degree which has terrorized regions inhabited by tens of millions of people.

The Canton Government, in whose armies Russian officers are conspicuous, has had important military successes in the past year, and pushed its control up to the Yangtze river, thus including more than one-half of the country. It now threatens to win Shanghai, the commercial metropolis, where the foreign interests and residents are centered. Foreign residents in the interior are rapidly removing to Shanghai or other ports, and many are leaving the country.

The Canton Government is in possession of Hankow, the great up-river commercial center, and thus far has seemed to desire that the for-

eign business colony shall continue its activities. Antagonism to foreigners, however, runs high with the populace, due primarily to the growth of nationalist sentiment and the feeling that foreign Governments have treated China as an inferior nation and imposed humiliating conditions upon her. This feeling has been inflamed by several clashes with foreign guards or marines in which lives have been lost on both sides.

It is generally recognized by foreigners interested in China that the old treaties and system of relations is unsuited to present day conditions and the foreign Governments are prepared to revise the treaties. It is difficult to do under existing conditions. There is no Government today representing all of China and the inflamed state of the public mind is unfavorable to deliberations.

One of the conditions most galling to the Chinese is the supervision maintained by foreigners over customs taxation and revenues. This supervision resulted from the fact that tariff rates from the beginning have been fixed in treaties, making every change the subject of treaty negotiations with all the countries having treaty relations with China. At the Washington conference in 1922 the powers represented agreed to a conference to consider this matter, with a view to giving China more latitude, but the action of the Washington conference was not ratified by all the participating countries until 1925, and by the time the delegates arrived in China for the conference there was no central Government to negotiate with. So they went home having done nothing.

The question of extra-territoriality is another one of burning interest. It arises from the fact that the foreign residents in certain cities are not under the jurisdiction of the Chinese authorities, but have their own municipal government, courts, etc. This situation developed naturally enough. The Chinese did not welcome the foreign residents and wanted as little as possible to do with them. The foreigners finding China's laws and methods of administration so different from those to which they were accustomed were anxious to have their own local government. It suited both sides to have the foreigners flock by themselves, with each nation responsible for the conduct of its own nationals. Thus China has today 31 foreign communities, governing themselves.

It is conceded that extra-territoriality must go, but it is evident that important interests have grown up under the old system, and that these communities should not be asked to dispense with their own governments until there are responsible Chinese authorities to maintain law and order.

The Customs Pledge

The principal foreign loans of the central Chinese Government were sold upon a pledge of the Maritime Customs, which have been under foreign supervision a long time. It is a remarkable fact that the customs receipts have increased despite the disorders. The receipts in 1926 were the largest on record, at 78,100,000 Haikwan taels, against 69,865,000 having exceeded those of 1924. The Inspector-General, Sir Francis Aglen, in giving out the figures made the statement that all foreign loan and indemnity obligations secured on the Customs revenue had been met, also that all domestic loans, including the Reorganization Loan of 1913, the source of which is under the management of the Inspector-General, had been met in full. The aggregate foreign debt of China in 1925 is given by the Commerce Year Book at 1,660,000,000 silver dollars.

Under present conditions the foreign loans of China are absolutely dependent upon the pledge of the Customs revenue, and this is one of the most important features of the situation.

The McNary-Haugen Bill

The McNary-Haugen bill has been born again, for the third time. It was first introduced and defeated in 1924, introduced with some alterations and again defeated in 1926, and has been introduced with further changes at the present session of the Congress. It has been reported by the Committees of both Houses, but inasmuch as this Congress expires on March 4 next, the prospect of action upon it is not good, without special procedure. Inasmuch, however, as the measure in essentially the same form has been before Congress three years and the provisions are well understood it is quite likely to come to a vote.

The measure in its various forms has been very earnestly pressed upon Congress and the country upon the plea that agriculture is in a fundamentally unsound and distressed condition, unable to recover by its own efforts, and that the national welfare requires that it have legislative assistance. With the continuance of agitation the various farm organizations which have strength over the country have gradually concentrated their support upon the McNary-Haugen proposition, and a considerable degree of class spirit has been enlisted in its behalf. This causes many persons who are personally dubious about the effects of such legislation, but anxious about the agricultural situation and indisposed to oppose the farm bodies, to give quasi-support or withhold opposition.

The opposition to the measure which thus far has defeated it does not deny that the state of agriculture is in many respects unsatisfactory, but holds that the conditions complained

of cannot be remedied by legislation, and regards this particular scheme as highly artificial and impracticable. Everybody of course desires agriculture to be prosperous, not only for its own sake but because that is essential to national prosperity.

The advocates of the several McNary-Haugen bills have denied that the object was price-fixing, urging that they sought only to establish and maintain a proper parity between farm products and other commodities and services. This may be called a fixing of price-relationships rather than a fixing of prices, but of course price-relationships are the essential thing in all price-fixing. Prices are high or low in comparison with each other.

The aim of all the McNary-Haugen bills has been to correct the unfair relations existing since 1920 between the prices of farm products and the prices of what the farmers have to buy. It is well known that these price-relations have changed from what they were before the war and that the change has been against the farmer. It also is well known that the change has been due to the general rise of wages during and since the war. This rise has affected agriculture along with the other industries, but inasmuch as wages are a smaller factor in the value of farm products than in the value of most other products the latter has been established at least temporarily upon a relatively higher basis than the former.

All of the McNary-Haugen bills have sought to remedy this condition by establishing a Federal Farm Board to exercise certain extraordinary powers in the marketing of farm products. To quote the Committee report on the pending bill, the Board is to "aid in the orderly marketing and in the control and disposition of the surplus of agricultural commodities." It is given practically unlimited authority within its financial resources to "assist in removing or withholding or disposing of the surplus" of the commodities named, and to levy what is called an "equalization fee" upon all producers of any commodity in which it is operating, for the purpose of paying "losses, costs and charges" incurred in such operations. An appropriation of $250,000,000 is provided by the pending bill to start the Board in business and to serve as a revolving fund, but the bill contemplates that the losses, etc., shall be met and the treasury eventually reimbursed by collection of the "equalization fees."

The Board is not to operate directly in the markets, but to enter into contracts (farmers' cooperative associations being given a preference) with other parties for the buying, selling, withholding or processing of farm products. "Processing" is defined as the milling of grain, slaughter of live stock, etc. Thus the Board would not only be able to have wheat or live stock exported at a loss in order to remove the surplus from home markets, but to contract with millers and packers for having flour and meats disposed of in like manner.

The Plan Explained

Through the good offices of Vice-President Dawes last year's bill was laid before Sir Josiah C. Stamp, an eminent economist who served as one of the British members of the Dawes Commission, and his opinion of the probable workings of the plan was solicited in behalf of the farm organizations that were backing the measure. An authoritative exposition of the plan was given by Messrs. George N. Peck and Chester C. Davis, active protagonists, who described the expected effect upon wheat in the following paragraph:

> The essence of the plan is to dispose of the surplus available for export under the direction of an agency whose buying power in the domestic market, aided by the efforts of cooperative marketing associations, will raise the domestic price for wheat toward the top of the tariff wall, above the world price level. This is made possible because this agency, through buyers and exporters commissioned to act for it can buy for export at a high, protected price, and sell at the lower world price abroad, and its losses on the one exported bushel out of five marketed, will be met by the excise tax on all five.

In the original McNary-Haugen bill the Board was charged to raise the prices of certain farm products to the parity with the general price level which existed before the war, as shown by the Bureau of Labor price tables. In the second bill customs tariff rates were made the yard stick for the regulation of prices. In the latest bill reference to the tariff rates is dropped and no mention is made of prices beyond the declaration that the purpose in providing for the disposition of the surplus is "to prevent such surpluses from unduly depressing the prices obtained for such commodities." This probably is intended as a concession, but under the management of a sympathetic Board the disposition of the surplus and the effect of the tariff probably would produce the prices avowedly contemplated in last year's bill, to-wit, in the case of wheat a price 42 cents above the nearest competing foreign market, plus transportation costs.

In the second bill, wheat, corn, cotton, butter, cattle and swine were defined as basic agricultural commodities, with a provision that in case conditions as to other farm products called for similar action the fact should be reported to Congress. In the latest bill, the list of "basic" commodities is reduced to wheat, corn, cotton, rice and swine.

The other changes in the bill are comparatively unimportant. The Board is to consist of twelve members, one from each Farm Land Bank district, and the Secretary of Agriculture, ex-officio. The twelve members are to be appointed by the President of the United

States from lists of three names submitted from each district by nominating committees. Under last year's bill these district committees were all elected in conventions in which only members of farm organizations were eligible to vote, but under the latest bill one of the five members of each committee is to be named by the Secretary of Agriculture. This restriction of the action of the President in the appointment of a Board which would have control over the prices of common necessaries was objected to last year by a minority of the House Committee on Agriculture as savoring of soviet methods, and probably unconstitutional.

Objections to the System

There are other objections to the system, some of them raising further questions as to constitutionality. The "equalization fee," levied upon every bushel or pound of any one of these commodities in which the Board may be operating, as it leaves the hands of the producer and deducted from the price, is compulsory and collected under the authority of law, hence is virtually a tax. The proponents of the bill argue that it is not a tax, but a regulation of commerce. Congressman Fort, of New Jersey, in the minority report, argues that as a tax upon interstate or foreign commerce it is unconstitutional.

The fundamental objection to the plan is that it proposes an arbitrary interference with the free play of economic forces, impracticable because the undertaking is far too great to be entrusted to such a body as is proposed. No scheme of price control ever has been successful which did not include a scheme for controlling production also. Prices and production are inseparably related. Prices are the natural agency by which production is directed: if they are unduly high or low for certain commodities, productive effort is shifted accordingly and thus fairly adjusted relations among commodities and industries are maintained. These relations are often disturbed by changing conditions, but the natural price system is always tending to restore the natural equilibrium. Efforts at arbitrary price regulation interfere with this natural process and wherever the influence upon production is disregarded they not only fail of their purpose but work mischief.

Interference in Individual Relations

Thus one of the chief complaints of the middle west is on account of the low price of corn. Under this bill the Board would buy corn and withdraw it from market to be held until another year or exported for what it would bring abroad, charging the loss to the equalization fund. The reason for the low price of corn lies in an unbalanced relationship between the production of corn and hogs. Hogs are bringing a good price and the farmers who have produced both corn and hogs are not in distress. As the situation stands a strong inducement exists for increasing the production of hogs, which is in every way desirable, but under this plan the Board presumably would endeavor to increase the price of corn without taking any action as to hogs. It is evident that to whatever extent this would benefit the farmer who must sell his corn, it would lessen the inducement for him to produce hogs or other live stock. Furthermore, to the extent that corn is bought by dairy farmers, live stock producers and other consumers the proceeding would be an arbitrary interference with their business. It is no part of the business of the government to interfere in the private relations of the people in this manner. Let alone, the production and price of corn will be naturally adjusted to the demand, and the wants of the public will be best served. It is economically unsound to offer an inducement for continued production of anything in excess of the want for it.

Interference Between Industrial Groups

The plan represents an attempt to regulate the relations between different industrial groups in the community—something that is quite beyond governmental regulation. It is common for the advocates of the policy to say that they do not wish to lower the compensation of the wage-earning class, but only to raise the compensation of farmers, but in reality the whole issue is over the exchange relations between different products and services. If the effects of the system should be to raise the cost of living and a general advance of wages should result throughout the industries, the expected benefits to the farmers would be nullified.

An example of the complications which are likely to arise with every extension of Government authority over private business is offered by the recent controversy over an appointment to the Inter-State Commerce Commission on account of the clashing coal interests of Pennsylvania and West Virginia. The McNary-Haugen proposal not only involves possibilities of controversy between the producers of different farm products but frankly plans for the regulation of the relations between farm products and other products. One may believe that such relations at present are unfair to the farmers without agreeing that their regulation should be placed in the hands of the farmers or attempted by any such machinery.

There is something abnormal and repugnant in the idea of deliberately adopting a national policy of selling food stuffs and other necessaries abroad below prices artificially fixed

to our own people. It cannot be supposed, in view of the large wage-earning population, that such a policy would last long. The effects which it would have on this country's position in foreign trade are obvious.

The powers which it is proposed to place in the hands of this Board are greater and of more consequence in the ordinary affairs of the people than any that ever have been exercised by governments except in times of war, and such as governments never have been known to exercise wisely. The bill contemplates the greatest venture in commodity speculation ever undertaken, and the farmers are compelled to participate whether they want to or not. The minority of the House Committee of last year was moved to say:

> We are not yet ready to place the American farmer, in the conduct of his entire life and business, in the hands of a Federal board. We are not yet ready to recognize class and group and sectional distinctions in legislation.

Sir Josiah Stamp's Comments

The advocates of the measure have claimed that Sir Josiah Stamp gave his approval to the plan, but what he said was that if enough of home production was exported to create a scarcity, and the tariff was kept high enough to exclude imports, the domestic price could be raised to the foreign price plus the tariff and transportation costs, which cannot be disputed. He attached however an expression of misgiving, saying that the producer might "fix his mind entirely on the rising price and forgetting that the excise demand will come along later, he may push his production a little further and increase the total supply on the market."

He disagreed with his correspondents upon their view that exports need not be increased, saying upon this point:

> It seems to be assumed that the object of the scheme can be achieved without any increase in the volume of exports. * * * It seems extremely unlikely that the farmer will be able to secure a larger domestic price for the domestic consumption if the volume of supply is left entirely untouched. The price is almost entirely determined by the flow of demand and supply. Should the supply be left entirely unaffected in each particular season how can one expect to secure a higher price? The problem cannot be discussed on this basis. To get a higher price supply must be restricted; a larger quantity than would otherwise be the case must be exported by the Export Corporation.

In other words, a scarcity must be created. Moreover, whatever increase of production resulted from placing a commodity on a profitable basis would have to be exported. Carrying further his warning that the effects of the plan would not be limited to the ones which his correspondents have in view, he says:

> If the price of wheat is to go up considerably in the United States then there seems a very fair possibility that it will have reactions on the whole economic condition of the country. The cost of living may be considerably enhanced and may lead to a wide circle of demands for increased wages. If this should be so, all costs of production will ultimately tend to rise slightly and there would follow, probably after many struggles or at least protracted negotiations, a new division of the product of industry. Such a movement would set up many new political forces and it is very difficult for an observer on this side even to begin to formulate the ultimate outcome.

It is evident that Sir Josiah thought it probable that a general inflationary movement would be started, the results of which could not be calculated beforehand. He did not believe that farm products would be the only things to go up, and it is easy to believe that the farmers even though aided by cumbersome governmental machinery would be a poor match for the labor organizations in a competitive struggle of that kind. An inflationary movement would be especially unfortunate at this time, when the trend of prices everywhere else in the world is downward. It would be pleasing everywhere else and probably start the redistribution of our gold stock which Europe has been long expecting.

The Dumping Policy

He proceeded also to make another suggestion, touching the possibility of retaliation on account of the policy of dumping farm products abroad at lower prices than are considered fair at home. He said upon this point:

> It is possible, also, that the scheme might have international reactions. There is always a considerable amount of feeling on the question of dumping and it might be alleged that, in effect, the scheme constitutes the dumping of wheat on a very large scale. This aspect of the matter, again, is very difficult to discuss, but it may be desirable just to bear it in mind. (For instance, Mr. Hoover's recent denunciation of restriction schemes for rubber and coffee.)

The United States has an anti-dumping section in its tariff acts for years and has resorted to its use in 34 cases since 1921. Within a few months the newspapers have told of an investigation into sales of German steel in this country at prices below those at which similar products were sold in Germany, which case is held by our authorities to justify the application of countervailing duties. Our Government has invoked the provision against such imports from Canada frequently, Great Britain, Austria, Switzerland, Italy, Czechoslovakia and Germany.

Canada has frequently invoked her own antidumping statute against this country. In the last general tariff debate Congressman Fordney cited an instance where an American manufacturer undertook to ship to Canada sanitary earthenware which had become obsolete in style at prices apparently below cost of production. Two Canadian inspectors promptly visited the factory of the exporter and insisted that the goods be re-invoiced at cost plus a reasonable profit or the shipment withdrawn.

Great Britain is our principal foreign market for foodstuffs, and Canada and Australia constantly protest against our competition there. It scarcely can be doubted that those countries would resent a policy on our part

of selling competing products in that market at less than what was considered a fair price at home, and press more strenuously than ever their claim for preferential treatment in the British market.

Stabilization in Rubber, Coffee and Wool

Arguments in favor of Government action for the stabilization of prices are almost invariably accompanied by representations or implications that such policies have been successful in other countries, and rubber, coffee and wool are named as such commodities. Ex-Governor Lowden in an article written for the New York Times recently, after telling of what had been accomplished for these products said:

> I am not advocating any of these plans. I do think, however, that just as Australia found a way to take care of her huge wool surplus without bankrupting her farmers, and Brazil a way by which her coffee surplus is no longer a menace, and England a method by which her rubber surplus no longer paralyzes the rubber growing industry, so we in America may, if we will, find a means of taking from the back of the American farmer the burden of his surplus.

Governor Lowden did not say that he thought either of these plans suitable to any of the crops of the United States, but continual reference to them creates the impression that they afford a demonstration of something that might be done for our farm products. It is well to know what those plans are and the conditions under which they have operated. Accordingly a brief review of each is given.

The Rubber Control

The demand for automobile tires increased the demand for rubber enormously, which increased the price and led to the discovery that rubber trees could be cultivated successfully. Plantations were started in the British and Dutch East Indies and expanded rapidly, under the stimulating influence of very remunerative prices until in 1926 production was found to be overdone. In 1905 world production was estimated at 61,000 tons, from which it increased to 124,000 tons in 1914, 390,000 tons in 1919 and 505,000 tons in 1925. The increase has been all in plantation rubber, and most of the time since 1920 prices have been much lower than before the development of the plantation industry. In 1912 the average price as reported by the "Rubber Age" was $1.12 per pound and in 1922 it had fallen to 17 cents per pound.

The legislation for price stabilization was adopted in 1922, and consists of a plan for restricting exports. A survey was taken of all plantations, and an estimate made of the producing capacity of each. This "standard capacity" is the basis of export regulation by means of taxation on a sliding scale and related to the price of rubber in London. If the price of rubber declines, a super tax, not for revenue but for control, becomes effective upon all exports in excess of a certain percentage of "standard capacity," making excess shipments unprofitable.

When the plan was inaugurated two-thirds of the world's supply of rubber was coming from these British colonies, and the plan has worked because the influence upon the world supply has been sufficient to force world prices upward. It was not effective until accumulated stocks in world markets had been exhausted, but when this occurred, in the Spring of 1925, and the demand fell wholly upon current production, the price advanced within a few months from around 30 or 35 cents per pound to a high of $1.20. At that time only 65 per cent of "standard production" was free for export without the super tax. The percentage was gradually raised, as the price advanced, until on February 1, 1926, 100 per cent was released. The price turned downward thereafter, and August 1, 1926, the super tax was applied upon exports in excess of 80 per cent of "standard capacity." The price of rubber in New York is now about 38 cents per pound and, it has been predicted, that on the 1st of the current month the export percentage will be lowered to 70.

It is important to note that while the restriction has been effective upon the price, it is also having the effect of stimulating production outside of the British colonies. There has been no curtailment in the Dutch colonies or elsewhere outside of British territory, and the British percentage of the world's production had declined in 1924 to about 50 per cent. One direct result is the large Firestone development now under way in Africa, and there are prospects of new operations in other countries. Thus the plan is building up permanent competition for the colonial industry. Inasmuch as plantings require about six years to come into production and only two years have elapsed since the restriction became clearly effective upon the price, it is evident that the full effects of the policy have not yet been seen.

The Coffee Restriction

In several important respects the coffee situation is much like the rubber situation. In both cases the bulk of the product is sold abroad and the effects fall almost wholly upon foreign consumers. Approximately two-thirds of the world's supply of coffee comes from Brazil, and the remainder for the most part consists of coffees which by reason of different flavors and higher prices are not immediately competitive. About five years are required to bring a coffee tree into bearing.

Apparently production in Brazil has made no assured gain in yield in the last twenty-five years, although the acreage in coffee trees has

been largely increased. The explanation given is that after 20 or 25 years the bearing power of the trees declines and that in recent years the plantings have no more than made good this loss.

The fluctuations of yield, however, have been violent, owing to weather conditions and the fact that a portion of the area is subject to untimely frosts. In years of large crops the price was very much depressed, the national resources were curtailed, and inasmuch as coffee is the main dependance for supplying the country with purchasing power abroad, the foreign exchanges were seriously affected. These conditions have prompted the Government to intervene several times with valorization schemes. In 1907-08, 1911-18 and in 1921-22 it bought large amounts of coffee and withheld the same from the market, financing itself mainly by loans in New York and London. The latest loan of this kind was for $50,000,000, placed in London and on the Continent. The first two valorization schemes were saved by short crops following, which enabled the Government to liquidate its accumulations.

Experience taught that success in efforts to stabilize the price depended upon controlling the quantity of coffee coming to market, and an elaborate system was developed for regulating the flow to the ports. Government warehouses were built at eight or more points in the interior, and all coffee was required to pass through these warehouses before going to a port or to the Sao Paulo market, and to leave these warehouses only as certificates for shipment were quoted. Loans were granted by the Government upon coffee in these warehouses.

In the coffee plan a survey is made of the plantations—"fazendas," as they are called—and each producer is allotted a definite share of the exports. The detail of this survey is indicated by the following extract from the regulations of the Coffee Institute, now in force:

ART. VIII.—Nobody shall be permitted to despatch coffee on the railways before conforming to the following conditions:

—Annual inscription of the proprietor and of his agricultural properties, consisting of:

a) Name of the properties and indication of the municipalities wherein they are located.
b) Number of coffee trees existing on each property, discriminating those which are not yet producing.
c) Estimate of the probable harvest of each property in the agricultural year following the date of inscription, as well as the quantities gathered previously, not yet delivered to the railways.
d) Indication of the quantities of coffee which it is intended to despatch during the following agricultural year, discriminating that which is sold, the name of buyers, that which belongs to the sharers and the enterprisers, when sendings must be made in their name.
e) Designation of the station or stations of the railways where despatches must be effected, as well as the date of same in each of the stations mentioned.

A record is kept of every bag of coffee carried by the railroads, showing the name of the shipper and when the shipment entered a warehouse. The shipments out of the warehouses to Sao Paulo or the ports must be in the same chronological order, and only as the coffee is wanted for export. Moreover, it is exported only as required to supply the foreign consumption demands, as the effect of the system is to cause foreign dealers to avoid carrying stocks and buy for immediate needs only. Nobody will take the chance of carrying coffee with the supply so closely controlled.

The system has been fairly successful, although the price of coffee now is about 4 cents per pound lower than one year ago, indicating that a surplus is being moved. Although planting is not directly restricted at this time, it has been discouraged by the control over marketing, and production has not on the average of a term of years increased. As might be expected, the administration of the policy is a subject of constant political controversy.

The following paragraph is from a recent market letter of Nortz & Co., well-known importers of coffee at New York:

Friends of ours who are important coffee planters, complain bitterly about a reduced output. They say that the majority of the owners of the older coffee estates cannot make any money nowadays due to the heavy interest charges they must meet as a result of deferred deliveries in Santos and also in consequence of increased wages and heavier expenses caused in part through the industrial development of the cities. * * * For the caring of a thousand trees, from 50 to 55 Milreis is now paid to the colonos as against something like 18 Milreis eight years ago.

Wool Control in Australia

During the war the Government of Great Britain, acting with a view to the double purpose of assuring ample supplies of wool for its soldiers and its own population at reasonable prices, and the marketing of the wool production within the Empire, took over the entire production at a fixed price. When the war ended it had a large accumulation of wool on hand, and as world trade was demoralized the price of wool slumped badly, the existence of these accumulations being an important factor in the situation. Evidently an attempt by the Government to realize on its holdings at once would increase the demoralization of prices and cause heavy losses to the Treasury. In order to deal with the situation an association was organized with the cooperation of the home and colonial governments and the producers' organizations, to handle the existing stock along with the current clips. We take from the official Year Book of the Commonwealth of Australia for the year 1925, pp. 681, the following statement concerning the liquidation of the stocks of the British Australian War Realization Association:

The marketing of B.A.W.R.A. wools was successfully carried out at various centres in England, and on

the Continent, and the concluding auction sale took place at Liverpool on 2nd May, 1924, when the last bale of wool carried over from the Imperial Wool Purchase Scheme was disposed of. The whole of the wool controlled by B.A.W.R.A. amounting to 2,691,756 bales was sold in three and a half years, and passed into consumption together with the current clips of the wool-growing countries.

Briefly, the control organization was formed for the purpose of dealing with an extraordinary situation, and no doubt its formation helped to re-establish confidence in the markets. As normal conditions were restored in trade a demand for wool developed which made it possible to clear out all stocks at high prices. The Year Book says that "contributing factors were the shortage in Australian production, the dearness of cotton and the activity in textile manufacturing centers."

When the Government's accumulations of wool had been disposed of it got out of the wool business and has had nothing to do with it since.

The Sugar Situation

On account of the low price of sugar, which is the chief product of Cuba, the Congress of that country in May, 1926, levied a prohibitory tax upon all sugar produced in that year by any mill in excess of 90 per cent of the crop estimated for that mill; in other words, it decreed that 10 per cent of the cane should not be ground. Furthermore, it decreed that grindings upon the crop of 1926-27 and 1927-28 should not start prior to the dates fixed by the Executive Power. The President delayed the start for the present year until January 1st and also decreed that the production from this crop should not exceed 4,500,000 tons.

The effect of this restriction upon the two crops has been to raise the price of sugar from a low in 1926 of about 2½ cents to about 3¼ cents at the present time. It has been necessary, as with rubber and coffee, to raise the price of all sugar produced in the world and this has been possible for the reason that Cuba is furnishing more than 60 per cent of the world's exports. Cuba is voluntarily sacrificing a part of its crop, which has been grown and is ready for grinding, to relieve the depression affecting the sugar producers of all countries. Whether in the long run the policy will maintain prices or not depends upon whether the producers of other countries increase their output. Their action probably will depend upon the returns they are able to obtain from sugar beets or cane in comparison with other crops.

Crops of the United States

A review of these experiments shows that all of the plans are subject to certain limitations, and that very little encouragement is afforded for their application to any of the crops of the United States. Export taxes are entirely ruled out by a specific inhibition in our Federal Constitution. Moreover in none of the commodities mentioned in the pending bill, excepting cotton, does the United States hold such a position in relation to world supplies as the British Colonies hold in rubber, Brazil in coffee, Australia in wool, or Cuba in sugar. As to corn, swine and rice, the world is indifferent to our supplies and quickly reduces its takings from us if the price rises. In the wheat situation we are more important, but other countries could quickly make good a total disappearance of our exports.

In cotton we hold a strong position, our exports in 1925 being 63 per cent of total world exports. If an export tax was constitutional, the rubber plan might be made effective, although some system of restricting production would be necessary. The production of rubber and coffee is mainly upon large plantations, a fact which facilitates apportionment and control, but in the case of cotton and all American farm products the apportionment of a crop among the millions of producers would be impracticable. Moreover, it does not take five years to bring plantings of cotton into bearing.

The Cotton Goods Industry

Cotton is not protected by a customs duty, so that the promise held out in the case of wheat, of advancing the price to a level artificially above the world price, would not apply without further action in that respect. Moreover, if a duty was placed upon imports of cotton in order to permit an advance of the home price over the foreign price, it would be necessary to raise the duties on all cotton goods, to enable our cotton goods industry to compete in the home market, and this would necessitate complete abandonment of our export business in cotton goods, which in the year 1925 amounted to $148,238,446. In is unbelievable that Congress will deliberately kill this growing business. As the principal producer of the raw material we may reasonably expect eventually to win first place as purveyor to the world in this class of manufactures. The South is urged to support the McNary-Haugen bill upon the theory that cotton and wheat would be upon the same basis for benefits, but the conditions affecting them are very dissimilar. The plan for deriving benefits from the tariff is practically unworkable as to cotton, and if applied to wheat, corn, pork, and other farm products which the cotton farmer usually buys would increase his outlays.

Developing Competition

It is to be considered also that organized efforts are being made to promote cotton-growing in Africa, Asia, South America and Australia, and every effort to artificially control the price in this country stimulates such ef-

forts to develop other sources of supply. Apparently no plan is at all practicable for aiding cotton except that of buying and withholding purchases from the market or of lending to producers on cotton security. This is being done on a large scale at this time, and the outcome undoubtedly depends upon the size of the following crops. It is evident that the prospect for a smaller cotton crop this year is better with cotton at 13 cents that it would be at 20 cents.

There is no scarcity of funds for carrying cotton now; the only question is as to who shall bear the market risk. The loans of New York banks upon cotton at present are much below what is usual at this time of the year, indicating the needs of the South are being met by the intermediate credit corporations which have been formed for the purpose or by the regular banking institutions of that region. Obviously the chance of exercising some degree of control over production is much better if the growers are carrying a part of the surplus themselves than if the Government or some other organization shall take over the entire crop at a price fixed by a board representing the growers.

Upon the commodity markets it is said that the price always can be put up by buying, but that the problem is to dispose of the "corpse." The policy of buying the surplus will work only if years of deficits follow.

Latest reports from Washington say that owing to opposition from the South to the "equalization fee," it may be eliminated from the bill. This would be to abandon the theory that the farmers would finance the enterprise by themselves, and reduce the enterprise to a mere adventure in the markets with $250,000,000 of Treasury funds. It is opportune just now to have another official report upon the adventure of North Dakota in flour-milling with an investment of $4,000,000. The State mill has run behind in every year of its operation, and in 1926 the deficit was larger than in any other year, reaching the sum of $428,019. The aggregate deficit on the mill enterprise to January 1, 1927, has been $1,252,000.

The Argument from Other Legislation

The argument from legislation said to have been enacted to assist other lines of business is without force if one believes that this proposal would not assist agriculture; moreover, most of the cases cited as precedents are not in point in any respect.

The copper producers' association of the United States, formed last Summer under the authority of the Webb-Pomerene act is sometimes mentioned. This is an organization for a common selling agency in export business, to reduce selling costs and more effectively meet foreign competition in foreign markets. It is not for the purpose of selling abroad at lower prices than at home, and the legislation does nothing in aid of the association except to exempt the members from prosecution under the anti-trust acts insofar as activities in foreign trade are concerned. Farmers' associations are exempt from the anti-trust acts in their activities at home and abroad. There is no tariff on copper, hence slight possibility of its being sold abroad at lower prices than here.

The Federal Reserve act was not passed for the benefit of bankers, or at their solicitation. Appointments by the President to the Federal Reserve Board are not restricted to nominations made by bankers' associations. Every suggestion to the effect that bankers should have anything to do with the choice of members was scouted as unreasonable. The authors of the Federal Reserve act emphatically maintained that it was for the regulation of bankers. Although bankers have not been wholly excluded from the Board, at no time have they constituted a majority, and at present only one of the appointed members ever was a bank official.

Government regulation of railroad charges was not inaugurated at the solicitation of railroad companies or for their benefit, but to control and restrict the charges. The Esch-Cummins law, often referred to as an act of favoritism to railroads, does no more than instruct the public rate-fixing body not to carry restriction so far as to prevent the railroads from earning a "fair return" on the actual value of their property employed in transportation. It does nothing to supplement the earning power of railroad companies, simply giving an assurance that railroads will be permitted to make such earnings if they can. On the strength of that assurance, given at a time when the companies were generally threatened with bankruptcy and in pressing need of new money to rehabilitate their properties, approximately $5,000,000,000 has been borrowed since the Esch-Cummins act was passed, with the result that transportation service has been greatly improved. To say that the act is favoritism is like saying that the State having prisoners in its power would be doing them a favor by not starving them to death.

There is reason for believing that the discontent on account of conditions in agriculture is exaggerated by mistaken ideas about the prevalence of price control in other lines of business. The truth is that competition is severe in all important lines—in merchandising, insurance, banking, shipping, all branches of the textile industries, shoes, clothing, furniture, sugar, iron and steel, automobiles, coal and ore production, and so on. The cotton goods industry has been in distress through

the last seven years. Mr. James Campbell, head of the Youngstown Sheet and Tube Company, and one of the veterans of the steel industry, said a few days ago that his company had expended $25,000,000 in improvements in the last two years without increasing its production by one ton, every dollar having gone to reduce costs, and made necessary by competition.

In all lines there are concerns which are conspicuously successful, as everywhere there are farmers who are conspicuously successful. Such concerns are the pace-makers and price-makers and the rest are under pressure. It always has been so and will be as long as the world continues to make progress.

Agriculture Fundamentally Sound

There are good reasons for believing that the state of agriculture is not as bad as represented by the advocates of this bill. It is a well-attested fact that agriculture was stimulated to expansion during the war. The Department of Agriculture, reviewing census figures, has said that "largely as a result of war-time prices about 40,000,000 acres of pasture land had been plowed up and put into crops between 1909 and 1919, and about 5,000,000 acres of forest land had been cleared for crops. Had there been the same rate of increase from 1909 to 1919 as during the previous decade relative to the increase in population, only about 23,000,000 acres additional of crop land would have been brought under cultivation." A similar expansion occurred in other countries outside of Europe and a readjustment of acreage and production was inevitable after the war. It is not a cruel judgment to pass upon agriculture to say that it must adjust itself to the world's needs, for that is no more than every industry must do. Moreover, there is no help for it.

The position of agriculture is inherently sound, for the population of the world is always growing and soon catches up with any expansion which temporarily outruns requirements. It has done so repeatedly. One of the most serious periods of depression agriculture ever has known was in the nineties, when extensive railroad building not only in the United States but in Canada, Australia, India, Argentina and Russia opened up large areas of new land to settlement. The prices of farm products fell and an agitation was worked up which almost overturned the monetary system of the United States.

Conditions in the Nineties

In December, 1890, Governor Boies of Iowa made an address at a dinner of the Reform Club of New York in which he stated that an official investigation under his administration had shown that in every one of the preceding five years the average market price of corn in Iowa had been less than the average cost of production. That is as bad as anything that has been said about present conditions. And yet one of the most prosperous periods in the history of American agriculture followed the nineties. The situation was temporarily unbalanced, but when farm expansion was checked it soon righted itself. There is no more reason for thinking that the present situation is permanent than there was for thinking that the situation in the nineties was permanent, or for thinking that the McNary-Haugen bill is the only means of salvation than there was for thinking that the free coinage of silver was the only means at that time.

We gave recently the census figures for farm land values in Iowa from 1900 to 1925, buildings not included. The information as to land values alone is not available back of 1900, and we give herewith the figures for land and buildings from 1890, the year in which Governor Boies made his doleful report upon conditions in that State. In 1890 the average value per acre of all farm land in Iowa was $28.13, in 1900 it was $43.31, in 1910 $96, in 1920 $227.09, and in 1925 $148.00. Of course the rise after 1900 was much too rapid for stability and the inevitable collapse has been the cause of real distress.

Influence of Rising Land Values Upon Farm Expansion

It should be understood, however, that the rise of land values always has been an important factor in the growth of the farm area, and therefore in the prices of farm products. It has induced the opening of new farms faster than was justified by current prices of farm products, and thus tended to maintain prices lower than would have ruled if the sole compensation had come from the products. It is gravely misleading to discuss the agricultural situation over a period of years without taking account of rising land values in the west.

The figures which are current for the average earnings of farm proprietors or farm families are misleading, although official, because arrived at by charging farms with interest on inflated or anticipated land values. It is common knowledge that city lots as well as farm lands which are expected to rise in value will sell at prices above the values upon which immediate returns can be obtained. In every period of rising farm values, such as that from 1900 to 1920, lands have been rated with reference to their estimated selling values in the future, rather than with reference to immediate crop returns. It is unfair to place fixed charges of this kind upon the business of agriculture.

The Effects of Restricting Immigration

The convention of Mortgage Bankers of America, held at Richmond, Virginia, in Sep-

tember, 1926, adopted a resolution urging a modification of the present immigration laws on the ground that "an increased number of skilled and valuable applicants for citizenship from foreign countries would prove helpful and advantageous in many lines of industry and help absorb the surplus of farm products." The mover of this resolution, Mr. E. D. Chassell, of Des Moines, said, in part:

In the twenty-year period 1901 to 1920 inclusive, American agriculture experienced its most prosperous era. Labor had a fair and equitable share of that prosperity. Industry was as prosperous as agriculture. In that twenty-year period in which our population increased 39 per cent about half of that increase came from abroad, bringing a stream of consumers now dammed by statute.

Mr. Chassell urged that the most effective help that could be given to the farmers would be by liberalizing the immigration laws, retaining ample provisions to exclude undesirables but allowing the population to grow. He said:

It is admitted by everyone that agriculture has not had an even break with industry in legislation. What remedies are proposed? Cooperative marketing is urged as a remedy. It may help a trifle but it will not promote the consumption of a surplus.

Schemes are proposed for buying up the surplus and storing it at government expense. The stored surplus would accumulate from year to year and the problems of disposing of it would become greater as the accumulations increase.

It is proposed to levy some kind of a tax on the producers or on the entire country and buy up the surplus to sell it at a loss in foreign countries. It is hoped by this method to enhance the price of the remainder to the American consumer. This involves an economic loss in transporting the products to the foreign markets where they would come into direct competition with similar products from other countries. It would involve the expense of collecting the extra tax in this country and of disbursing the proceeds after the sales were made.

It would provoke retaliatory legislation. Other countries will not permit the dumping of competitive products into their markets. This plan has been tried by Australia. It pays an export bounty of six cents a pound on butter. Canada has levied a countervailing tariff of six cents a pound on Australian butter while admitting butter from the United States under a tariff of one cent a pound. It would be better to import consumers than to levy more taxes to pay a bounty on agricultural products to be exported at a loss.

Without entering into the merit of the arguments for and against the immigration laws, it is unquestionably true that the farmer has been unfavorably affected by the restriction in two ways, to-wit, by the restriction of the home market for farm products and the restriction of the labor supply. The latter has raised the cost of his own hired labor and is largely responsible for his chief grievance, the high cost of everything he must buy.

The immigration restriction may be well justified. It is popular and it is probable that if submitted by referendum it would carry the farmer vote, but if we have it we must accept all the natural results.

Agricultural Progress in the Northwest

One of the states hardest hit by the slump of prices for agricultural products was North Dakota, but all accounts show that the farmers there are rapidly adapting themselves to conditions and that already the outlook is more promising than it ever was likely to be under the one-crop regime. The State Dairy Department gives the following figures showing the progress made in dairying in ten years:

	1916	1926
Number of creameries	38	83
Butter made in creameries of North Dakota	3,210,868	32,375,750
Number of cream stations	90	1,845
Butterfat market through cream stations	5,777,687	31,668,990
Butterfat marketed direct to creameries	8,000,000	12,391,230
Dollars paid farmers for butterfat	1,452,301	12,509,187
Number of dairy cows	221,016	354,167

The 38 creameries operating in the State in 1916 were small, struggling concerns, mostly cooperative, and many of them failed of success. The 83 now in operation are believed to be generally prosperous and include plants of several very large and strong companies.

In 1924, at the instance of President Coolidge, a corporation known as the Agricultural Credit Corporation was formed for the purpose of aiding farmers in the northwest to get a start in live-stock and dairying. Subscriptions were obtained from banks and important corporations, all the money being raised in the Middle West and one-half in the East. It has maintained headquarters in Minneapolis, with C. T. Jaffray as Chairman and Arthur P. Kemp, President. The extent of the corporation's activities can be gauged by the following figures. In 1924 it loaned $225,491 to 649 farmers to buy 3,491 dairy cows and $321,500 to 496 farmers to buy 27,691 sheep. In 1925 it loaned $338,096 to 777 farmers to buy 3,343 dairy cows, and $236,282 to 4,070 farmers to buy 27,323 sheep. In 1926 it loaned about $190,000 to 542 farmers to buy dairy cows and about $600,000 to about 1,000 farmers to purchase about 70,000 sheep.

The operations have been very satisfactory. The loans have been made on several years' time, at 6 per cent interest. The sheep loans are payable 30 per cent the first year, 30 per cent the second and 40 per cent in the third year. In the meantime the little flock usually pays for itself.

The operations of this credit corporation represent a bona fide effort on the part of leading business men in a few large cities to aid in the solution of the agricultural problem in the northwest, not alone by the aid extended but by successful demonstration in numerous localities.

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